

SPEECH DELIVERED BY

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INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF KENYA-ICPAK,
ON WEDNESDAY, 16th DAY OF MARCH 2016,

DURING THE OFFICIAL OPENING OF ANNUAL GOVERNANCE & ETHICS
CONFERENCE HELD AT VOYAGER BEACH HOTEL, MOMBASA

INTRODUCTION

- The ICPAK Council Members present
- The CEO & team
- The Chairman of our Host Branch & team
- Any past Chairmen & past Council Members
- FCPAs
- My fellow accountants
- Other branch officials
- Distinguished participants
- Speakers
- Ladies and gentlemen

Let me start by extending a warm welcome to all participants to this great event and to the city of Mombasa. I am grateful that you have made time to be here.

Before I give my opening remarks on the conference let me give a few key updates:

- The reviewed strategic plan 2016 ó 2018
- The amendment of the Accountants Act
- The Research & Development function
- Recruitment drive
- Centre for Finance & Tax
- 2016/7 Budget submissions
- The ICPAK elections ó (*recognise any contestants present*)
- The Branches & the Devolution Agenda

And now, it is my pleasure to join you for the 2016 Annual Governance & Ethics Conference themed: **“FACING THE CHALLENGE OF ETHICAL GOVERNANCE IN KENYA”**

Allow me to briefly discuss the importance of Corporate Governance and ethics with regard to fostering stability in our country. I will not go into the basics of Corporate Governance as different speakers well competent with this subject will touch on this, which is the main purpose of the conference.

Corporate Governance

Fellow CPAs, Ladies and Gentlemen,

The subject of corporate governance has gained increased attention as a result of substantial changes in the role of the public and private sectors in economic development. In recent years, corporate governance has received special attention from the economic managements of various countries, as a result of the financial crisis which have befallen major shareholding companies casting doubt on the credibility of their management and the authenticity of their posted financial results.

These outcomes are in the forefront of the causes which have led to the rapid tendency worldwide towards stronger management for companies, state corporations and related entities. More focus is now directed at increasing efficiency of internal supervisory controls, strengthening aspects of financial disclosures, determining the responsibilities of the boards of directors, and executive management, and setting independence standards of the audit committees and external auditor, in addition to emphasizing the significance of professional values and ethics.

Therefore, Good Corporate Governance is vital for a healthy business, and, economic & social environment. For us, the accountancy Institute we have a responsibility to the Kenyan Society, to set the right example, to espouse principles of credibility, professionalism, accountability, fairness, transparency, equity and ethical values.

Kenya Corporate Governance Scene

The Constitution has introduced major shift in the governance of Kenya. There are several provisions in the Constitution which aim at transforming governance and leadership as well as guiding the holders of public office. Article 10 of the constitution lists the national values and principles of governance. It provides that the national values and principles of governance espoused therein bind all State organs, State officers, public officers and all persons whenever any of them applies or interprets the Constitution, enacts, applies or interprets any law or makes or implements public policy decisions.

Article 10 lists the national values as being:

- i. Patriotism, national unity, sharing and devolution of power,
- ii. the rule of law, democracy and participation of the people;
- iii. human dignity, equity, social justice, inclusiveness, equality,
- iv. human rights, non-discrimination and protection of the marginalised;
- v. good governance, integrity, transparency and accountability; and
- vi. Sustainable development.

Chapter 6 and Chapter 13 of the Constitution which provide for leadership and integrity and principles of public service respectively further ensure that the good governance is achieved.

Role of ICPAK in Governance

Following a series of major corporate failures and scandals in the recent past, it is clear that something had to be done to rein in the way public and private limited companies are directed, controlled and governed. The problem arises when shareholders expectations often diverge widely from those of directors, who irrespective of poor performance award themselves hefty perks such as golden handshakes, annual bonuses (which in some circumstances are unsustainable and undeserved, among many other mouth-watering fringe benefits). These captains of industry constitute themselves into sacred cows, untouchables and a clique. Some engage in insider-trading, off-balance sheet accounts, creative or window dressing accounts and questionable business decisions which are often suicidal to their organizations.

Aware of this, the Institute of Certified Public Accountants of Kenya (ICPAK) carried out a survey on effectiveness of Audit Committees in the public sector late

last year. The survey was informed by the National Treasury's Circular No 16/2005 on the appointment and composition of audit committee.

The study revealed several gaps hampering full realization and adherence to corporate governance principles. To start with, it was observed that **inadequate capacity and skills** of the members of the Committee, is the greatest roadblock to effectiveness of the audit committees with 62% of the respondents holding this view.

Other challenges identified include:

- **Limited financing** and delays in timely disbursements of cash;
- **Operational challenges** including lack of succession planning and quorum issues;
- Committee **independence** especially where individuals do not understand their roles properly and
- **Conflict of interest** especially from members seconded from parent ministries.

In view of these findings, the following measures are proposed to enhance the operation and effectiveness of the audit committees in the public sector:

1. By the very nature of the appointment process, independence of Boards and hence Audit Committees are questionable. Lack of independence hampers the ability to deliver on the mandates. In accordance with Section 194 of the PFM Act and its Regulations, Public Sector Accounting and Standards Board (PSASB) should provide **guidelines on the minimum requirements** for one to serve in the Audit Committee in terms of qualifications, experience and skills.

“ICPAK is working very closely with the Office of the Accountant General to develop these guidelines”

2. On lack of adequate capacity of the audit committees, we are of the opinion that the Audit Committees should have at least one member with demonstrated understanding of audit, risk management and control and extensive knowledge in accounting with at least five years of experience. In accordance with the Mwongozo Code, the Chairperson of the Audit Committees in all public sector Institutions must be a registered member of the professional accountancy organization recognized by law in Kenya, **in this case ICPAK**.

“This is not the case at the moment. We have engaged the various stakeholders to ensure implementation of the same”.

3. ICPAK feels that there is need for a **policy intervention to entrench succession planning**. We recommend a staggered appointment of members of the audit committee for continuity and institutional memory.

4. It is proposed that the Office of the Auditor General maintains close working relationship with the internal audit to establish the reliability of the work and systems of internal audit with a view to placing reliance on the work by the department in assessing overall compliance. This would contribute to effectiveness of overall oversight.

“You can imagine the external auditor spends 2-3 weeks to audit the work done over a whole year! – Collaboration between the internal and external auditor would help the OAG a great deal – a more focused and a more efficient audit”

5. The Internal Auditor General should support the internal audit departments in the public sector through **appropriate guidelines** and review already issued circulars to deal with various limitations arising from the same. It should also spearhead the reviewing of various Acts of parliament to allow diverse skills, attaching reward or punishment incentives to encourage effectiveness.

6. To ensure that internal auditors carry out their internal control responsibilities, the audit committee should review and approve the internal audit function staffing schedules and financial budgets. Audit committees should monitor internal audit coverage to ensure that all key risk areas are considered. This may involve meeting with the auditors to review and discuss the current year's audit plan, and the resolution of prior year issues.

7. The effectiveness of audit committees is driven by the strength of the internal audit department of an entity. It must therefore be a primary role of the committee to oversight the appointment and appraisal of the head of internal audit. To imbue independence of the audit function, the processes around audit committee must be conducted with some degree of independence both by the Committee and Management. For the appraisal process, we recommend a hybrid appraisal of 40% by the Audit Committee, 50% by the chief executive and 10% peer review.

8. The chief executive and the board should support the audit committee at all times and when possible meet regularly to discuss the progress and the emerging issues. However, the Audit committees must also be able to hold meetings with both the internal and external auditors without the participation of the executive. Such meetings would help to ensure a free and frank exchange of information where the expression of views might otherwise be restricted.

The Institute also takes notice of the **Government Owned Entities Bill** currently before Cabinet. The Bill seeks to streamline board appointments to the public organizations. In our considered view, this is a step in right direction. Both houses of Parliament should move with speed and pass this Bill into law as way of addressing issues of corporate governance in the public owned entities. The Bill compliments **Mwongozo code**.

Allow me to enumerate some features of Mwongozo code. The Mwongozo code lays a firm foundation for the management, governance and oversight of State Corporations. It is firmly grounded in our constitutional values and principles as well as best global practices.

The code builds on gains realized from past reform efforts in the State Corporations sector. It is hoped that implementation of Mwongozo will result in effective and efficient State Corporations that deliver value to Kenyans in a transparent and accountable manner. The Institute would like to urge all accountants and those charged with responsibility of managing public resources to abide and respect precepts of Mwongozo code.

Conclusion

In conclusion let me restate that the principles of Corporate Governance should apply to both listed and non-listed Companies and Institutions in the private and public sectors in Kenya should ensure that they belong to professional bodies so that the strict oversight and gate-keeping rules can be applied to them.

Professionals always ensure that they act responsibly, according to their norms, in order not to tarnish their individual image, that of their professional bodies and the

organizations they work for, plus safeguarding the interests of patrons, donors, cooperating partners and sponsors, and probably not to incur the wrath of the penalty of having their licenses suspended or cancelled or their activities prohibited.

This will ensure that the financial management and accountability systems are sound, beneficial and sustainable to our society. We bank on you to play your part with diligence, integrity and honesty.

As Accountants, we must to pause and reflect. We must ask ourselves relevant questions ó We must define our role as the Accountant, and, We must take our space as a leaders.

They say that:

“If what you are holding is not enough to be your have harvest, make it your seed”. We need to plant the seed now. Corporate governance is communal responsibility and we must play our role,

“Remember whatever we do is a self - portrait of ourselves. Let us autograph our work with excellence. If we give the best we have to our country, the best will come back to us”

“Let’s give our best to the seemingly small jobs. Every time we conquer one, it makes us much stronger. If we do the little jobs well, the big ones will take care of themselves”

We must re-invent ourselves to remain on the debit side of the global ledger.

Na kwa hayo machache, ni furaha yangu kutangaza kongamano la NNE la usimamizi na maadali limefunguliwa rasmi.

Mungu hawabariki wote.

FCPA Julius Mwatu
Chairman-ICPAK